EPISODE 1365

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[INTRO]

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FT: Welcome to So Money, everybody. It's Farnoosh. It is June 3rd. How are you doing? All right, I'm not wasting time. I want to talk about this article that came out this week on Bloomberg. I posted about it on my social media, on Instagram, and the community went wild. I have to take the time now to talk about it with you.

In case you missed it, an article on Bloomberg, here was the headline. One-third of Americans making $250,000 live paycheck to paycheck, according to a survey. At first glance, this headline seems absolutely bogus, right? How is it possible that a third of Americans making a quarter of a million dollars, which is five times the average income in this country, unable to save. So what does living paycheck to paycheck even mean, right?

We all have in our minds this idea of what paycheck to paycheck means and it's different. Some people may assume that it means you are in debt, or you can't make ends meet, that you're barely covering your expenses. While that may be true for some people who characterize their financial life as living paycheck to paycheck, the definition in this particular survey, which was done by LendingClub found that 36% of households say they're devoting nearly all of their income to household expenses.

Okay, so that's what living paycheck to paycheck means in this survey, in the minds of these households. So they're not able to maybe invest or save for a rainy day or go above and beyond the basic necessities like food and childcare and their rent and their housing payments and student loan debt. But let me tell you, a headline like this sets the Internet on fire. When I posted this on my Instagram, it was fascinating to see just the division of commentary we had. On the one side, many people who were disgusted. They were like, “How can this be?” Their lifestyle is well above their means. They're confusing wants with needs. They're paying too much for housing. They should move.

Then there was another part of the debate, a lot more empathetic and I think a lot truer to the realities that these people are living, which is that if we're talking household expenses, we're not talking about Louis Vuitton bags and trips to Paris or organic avocados for that matter. We're talking about student loan debt, housing payments, basic food, gas, insurance, child care costs if you're a household with kids. So this is not stuff that is in my mind, and I think you would agree, frivolous or unnecessary. These are essentials.

When we see headlines like one-third of Americans making $250,000 living paycheck to paycheck, we shouldn't just think about these people who are stretched but also the systems in place that create such hardships for these households. Things like the fact that if you're a parent with a child, your childcare costs in this country are probably well over $1,000 a month. If you live in expensive parts of the country, maybe even a couple of $1,000 a month. That childcare costs are rivaling housing payments, and we are living in an inflationary moment. So rent is probably a lot more wherever you are.

People often assume that these people, oh, well, you must be living in California or New York City. Certainly, that adds to the price. But even people living in middle America or the south or anywhere, they're experiencing elevated housing costs because inflation does not discriminate. Okay. Inflation is nationwide.

I want to read off some of the comments that I got based on this article, and I'll be honest. When I posted this, my facial expression was a startled one because it is a pretty clickbaity headline. Hats off to Bloomberg for knowing what triggers us, but I want to read off some of the comments that I thought were insightful and I think more insightful than what this article provided. The author, Alexander tansy, while this person did a nice job of explaining the data, I wish that there was more context and more anecdotes, stories from these people from the survey or elsewhere that shared similar sentiments to those in this survey that, “Yeah, I make a quarter of a million dollars every year, and I'm living paycheck to paycheck, and here's why. It's not, again, because I'm eating out too much.”

I had one mom write into me and she said, “Hey, Farnoosh. I have to say that I make $260,000. And that paycheck-to-paycheck stat is real. I have two kids. I'm a single mom by choice. And until this month, I was still having to purchase our own health insurance. I live in a two-bedroom rental in Pasadena. That is the lowest end of the rental market in the area. Between childcare and rent, I am basically paycheck to paycheck. I drive a Subaru. I only have credit card debt because I was out of work during my maternity leave that I had to fund because I was a freelancer. I know a lot of families are in the same boat for various reasons. I know that seems crazy to people. But depending on where you live and your child's situation, it is relative, and I hate to see all the judgment in the comments.”

She's right. It's fun to be snarky, I guess. But the constraints are real and often not within our control. Yes, this mom could maybe move to another state, but then she has to uproot her family. Maybe she's around relatives or friends who are a support system to her. Remember, she's a single mom. So it's not that easy for her to just leave the state.

Another person writes, “There was a book that a friend gave me that basically says no matter how much somebody earns, when asked what would make them feel appreciated or secure, that always average to a third more.” What do we think about that? So if you earn $100,000, you would say, “If I earned $130,000, I would feel more secure. If I made a million dollars, actually 1.3 is where I would feel most secure.” That's interesting. I want to know more about that book.

Another person writes, “This is all lifestyle creep.” Another person writes, “It's possible, especially if you've got student loans. You live in expensive cities. $250,000 gross is different after taxes and deductions are taken out. It becomes net and far less than $250,000.” That's for sure. If you live in New York City, by the time you pay federal, state, and local taxes, that's over half of your income gone. But, man, the judgment. They’re doing it right. Someone else wrote, "They must all live in California.”

So this is interesting. I think stories like these, while they get us going, for me as a journalist, I find them so fascinating, not because of necessarily what one survey says. But because if it's igniting so much conversation, and there's so much divisiveness over this, and then also you're hearing from people saying, “Hey. Quietly, often they're privately DMing me. This is my life, and I'm not somebody who's out there living it up, so to speak. I've got real hard costs, and I make, yes, a lot of money, relatively speaking. But to assume that I am financially independent or financially stable because I make hundreds of thousands of dollars a year is not true. It's just not true.”

I think it's important to uncover stories like these. If I had the chance to follow up on this story, I would profile. There are so many profiles we could be doing, looking at how people are living with the incomes that they have. I think it's important to highlight the people that are really being responsible. They're paying for the things that are the needs. I think that the media does not do a good job of showcasing these households. It's unfair because without that transparency, we all assume that those who are “not making it” on these large salaries are being childish with their spending, or they're not budgeting correctly.

I could say so much more about this topic, including one of the interesting points in the story, which was that the journalist who wrote the article said, “Hey, it's not hard to imagine someone making a quarter of a million dollars a year would be struggling because if this person is living in California, and they're buying the average cost of a home there, which is $1.7 million or something, well, that's already so much of their paycheck.”

I'm thinking to myself who's buying a $1.7 million home on a $250,000 salary? Assuming they have to go apply for a mortgage, what bank is giving them a mortgage, right? Unless we don't know about a partner in the picture who's making half a million to a million dollars a year, what bank is giving you a loan for seven times your gross income? Someone said, “Well, that's happening, Farnoosh. Banks are over leveraging.” I'm thinking that's another problem, right? Are we back to 2006 and 2005? Oh, boy. You got to read the article. Anyway, go check out that article. I'll put the link in the show notes if you missed it. Thanks to everybody for weighing in.

We have questions today related to investment moves in the recession, this possible recession that we're headed for, what to do with an inheritance, where to put it, questions about a phased retirement. A listener writes in asking, “Could we pull off an early retirement?” Ahead of that, let's go to the iTunes review section and pick our reviewer of the week. This week, we're going to say thanks so much to OtterlyJenny, who wrote a review last week saying, “So Money is a truly informative and diverse podcast. I've been listening to the So Money podcast since the lockdown in 2020, and what I've enjoyed most about the show is Farnoosh’s ability to find and engage such a range of guests that can offer a different perspective to the financial world. Not only have I learned so much about finances and wealth, but this podcast truly provides the tools and motivation to help you achieve your financial goals.”

Jenny, thank you so much for your kind words. I would love to offer you a free 15-minute money session with me. If you're interested, you can email me, farnoosh@somoneypodcast.com. You can direct message me on Instagram, and let me know you left the review, and I'll follow up with a quick link for you to pick a time that works for you.

All right, let's go to the mailbag. Our first question is from James. He writes in, “Hey, Farnoosh. I really love your podcast. I treat it like my daily Wall Street Journal.” Oh, my goodness. What a compliment. He says, “I want to know if it's a good move to invest more in my 401(k), even though we are on the heels of a recession. My company matches 8%, and I just got a raise. So my new rule is to live off half of my raise as an adjustment for inflation and then invest the other half. Does this seem like a smart move, given the threat of recession times for these next two quarters or maybe longer?”

Hey, James, really smart question. Yeah, we don't know if we're going to have another recession, how long it's going to be, how deep it will be. But I do think that your plan to divide your raise to afford the cost of living increase and to invest is a smart one. I don't know your age, but I'm going to assume you're a younger professional, someone in your 20s, your 30s, early 40s. You've got a long time, until you're going to need to withdraw from your 401(k).

So if the recession arrives, and we have a couple of months or a couple of years’ worth of volatile stock market moves, more down than up days, I still think that it's important to invest, and I actually have a number of articles coming out on CNET about how to think and approach investing in this interesting time. We have a podcast next week talking about this specifically. So stay tuned to the show.

Next week, we've got Amanda Holden on the show who's an investing expert, talking about a lot of things that you're bringing up, like how to hold on during times of uncertainty. So I like this plan, James, and I want to give you permission to change the plan as your life evolves. If you lose your job, if your costs go way up, you want to be practical. You don't want to be so rigid about these rules. It's nice to have a plan. It's nice to stick with a plan for a little bit. But feel it out. Does it make sense for you? Does it feel right? Are you able to make ends meet and still feel like you're addressing your future goals? If it works out, great. But you have my permission to revisit this.

We just finished talking about people living paycheck to paycheck, making a quarter of a million dollars a year and sometimes the assumption over that being that people are – That we're allowing lifestyle creep to set in. We're not checking in with our spending to make sure that we're still being cost-conscious. We're just spending more as we're making more. But this to me sounds like you are saving and investing more as you are earning more, which is really responsible, and I applaud you for this.

All right, next up is Morgan, and she's got a twofer for me, two questions. First, she says, “Thank you for your show. It is a regular in my life, so helpful in many ways. Two unrelated questions.” So the first question that Morgan has relates to an inheritance that her husband received from his grandmother. So his grandma left her husband a CD with his name on it for $25,000. She recognizes this as a huge benefit, a huge privilege. The CD has made pretty much no interest. So the goal is to move it somewhere where it can make more money. She says, “Well, we want to put it in an iBond. I heard there is a $10,000 maximum on iBonds. Is that correct?”

Yes, that is correct, $10,000 a year. So you could do $10,000 this year, and then at the start of next year you could do more if you wanted to. I don't know where inflation will be. Will it even be worth it at that point? Because iBonds do adjust twice a year, and they adjust with inflation in mind. So it's never going to be exactly the rate of return as where inflation is. iBonds are returning right now. Let's see. What does the website say? The website is treasurydirect.gov. 9.62%. It's pretty awesome. So you could do an iBond.

If you don't need this money for at least five, six years, Morgan, I'd say invest it. Stick it in wherever you're already investing, a brokerage account that's diversified. Or if you want to open up an index fund that tracks the US stock market that's low fee, that's another option. I say this because you've also told me here that you have no credit card debt, your cars are paid off, your 401(k)s are fully funded. So the next place today we put it is an alternative investment account like a brokerage account, an IRA.

You do have a mortgage, you point out, although that is probably a low interest rate. Your student loans, although high, $230,000, you're a doctor, I get it, the interest rate is less than 3%. So in terms of maximizing the return, getting the most bang for your buck, an iBond, the stock market, probably the best place to put it. I would also keep an eye out for bank accounts that are offering above average interest rates.

The Federal Reserve has been raising interest rates since the spring. They're going to continue to do this is my guess. So, yes, that's going to mean that rates on debt and credit is going to go up, already has. But slower to that, we'll see some rates go up in the savings world. Not a bad time to start looking around. We're already seeing AP-wise on accounts going up.

As I've talked about before on the show, neobanks, which are not traditional banks, they're these app-based FinTech companies that have savings accounts, they're FDIC-insured, do you offer much more competitive savings rates than, say, your plain vanilla bank account down the road. So you could also look into those accounts, which increasingly are becoming more competitive as far as yields. Those are cool because they're all fully liquid.

iBonds, remember, you got to keep the money in for a year. Stock market could be down for another year before it starts to be positive. If you want the combination of liquidity, security, and better than average rates, you could look at a high-yield checking account offered through these neobanks. But also some traditional banks are getting in on this, are getting in on the action and offering higher rates because rates are going up.

Your second question pertaining to being a doctor and financial advice. Morgan writes, "I have noticed that a lot of financial resources are geared towards corporate American workers or entrepreneurs. There are a few focused on health care workers. Even your recent session, your recent podcast with the female physician seemed to focus on leaving medicine and finding ways to have a side hustle outside of medicine. In a time where burnout for health care workers is real and the only way to make more money as a physician in the profession itself is to work more shifts, it is disheartening to hear the only way to earn more is to leave medicine. Do you know of any other individuals in the financial space who discuss finances in the setting of professionals like physicians or nurses, people who don't typically work at a desk?"

You're totally right, Morgan. Off the top of my head, I can't think of an expert who focuses on helping out physicians or healthcare professionals make more money at work. One story I can think of was Drs. Renee and Nii Darko who were on the show, and they've got their own podcast. They're doctors, and they have their MBAs, and they were talking about how they had a combined – I think it was like $600,000 in student loan debt between the medical schools and the business schools. It was a lot.

So they did pay everything off, and you know how they did it, they worked around the clock. Not probably the healthiest way to go about things, right? Talk about burnout. Talk about also the risk in being at work and being exhausted and then dealing with patients. But they recognized that it was a real risk. Nevertheless, it's how they got out of debt.

The other lesson that I've learned from doctors who've been on this show that have enhanced their financial lives is they've invested. They've prioritized investing, and they invest beyond the 401(k). They've got brokerage accounts. We had one guest come on and talk about how he invests in real estate. Dr. Peter Kim, who's the Founder of Passive Income MD, he is an anesthesiologist and a real estate and passive income expert. You can check out passiveincomemd.com.

But his contribution to personal finance is helping physicians achieve financial freedom through multiple streams of income. So, no, he's not going to tell you how to get a raise at work or how to make more as a physician specifically, but how to add income streams to your life that aren't so time-consuming because I think he recognizes that if you're in health care, you're already, to your point, overworked and spent. So his passion is real estate investing, and he's got a company called curbsiderealestate.com. Helps physicians learn about the home buying process. There's even a thing called a physician's home loan. He was telling me on the show.

Then, of course, I think you're referencing Dr. Bonnie Koo, who's the physician and Founder of Miss Bonnie MD. Her philosophy on how to make more as a doctor is to invest. Invest in the stock market. Maybe invest in real estate. I think you're right. There is a trend of educating physicians and those in health care on advancing their financial life outside of health care.

I'm not a doctor. I don't work in health care. But to me, I think they're being really realistic. When you think about building wealth, your job is just one variable in that equation. To insist that your job be the end all for creating wealth for you I think is limiting.

To open your mind to passive income streams, real estate investing, stock market investing is one way to make money while you sleep. Of course, like the last couple of months, it could be very volatile, and there are risks. So it's not a straight line up, but people are finding more success with that than going to their boss at work and trying to ask for more money. By the way, even if they get a raise, what is it? 5%, 10%. In the grand scheme of building wealth, it's not always the needle mover. Morgan, thank you for writing in. Thank you for two excellent questions and thanks for being in the audience.

All right, next up is our friend Bob, who loves the podcast and writes in and says, “My wife and I have an opportunity to begin a phased retirement. She would continue working full time for several more years remotely at a little over $90,000 a year so that we can retain her health insurance and other benefits. I likely would be cutting back to part time work and making about 40,000 a year. We also own a rental that currently brings in about $800 a month in profit. We have great tenants, so we haven't raised the rent for several years. But if we did, we could make around $400 more per month.

We also have a little over a million dollars in various investment and retirement accounts, which is down actually from 1.3 million six months ago. But we'll let that ride. My wife is in her mid-50s, I'm in my late 50s, and we are both in good health so far. We have enough equity in our current home to be able to sell and be mortgage-free in a lower cost area that we really like, where we could enjoy life more than the intense grind we've been enduring for quite a few years now in our high cost of living area. It seems like we can pull this off. But I'm struggling with the change in mindset from the expectation that I was going to have to keep working until I was 70. Does it seem doable to you, and is there anything big that we seem to be overlooking?"

Bob, thanks for your question. It sounds like you have a really healthy plan here. I like hearing that you have over a million dollars in investments, which you don't plan on touching. You're not going completely cold turkey on paychecks. Your wife is going to continue to work. You're going to continue to work part time, so you will have some income. You have the rental income. You are wise to have at least one of you working full time to earn benefits. Because that, I will tell you, is one of the big issues for early retirees is affording health insurance. If you're not working somewhere, then there's a good chance you're not going to get subsidized health insurance, and it could be very expensive out of pocket. So planning around that can be expensive.

If your only issue here is adjusting to the mindset of not working until you're 70, look, I mean, you're telling me you're going to just go part time for a while. So you're not, again, going cold turkey from employment. You are phasing out, which again I think is a very healthy and smart way to go about this. If you wanted to go back to work, you probably could. That's the other thing, always knowing that you are not locking yourself out of options here. The employment world will always be here for you when you're ready to get back in.

Look at my dad. I don't know if you listened to that episode, but he got laid off in his early 60s. Most people might have said, "Well, this is early retirement." But, no, my father, he's healthy, he's got an active brain, he loves solving problems, he loves working, and he doesn't have hobbies, which for better or worse, he doesn't have a lot of hobbies. So he retooled his career path a little bit. He realized that the industry he was in was downsizing. That being able to replace his job at a competing company was probably not in the cards. So he learned about AI and machine learning and spent a year studying and got back in the workforce, making a nice salary and really feeling like he's making an impact.

That inspires me to tell you that when you're part time, maybe if you're anxious or feeling out of touch because you're not working as much, then you could look into educating yourself in that time off. Is there somewhere that you want to take your career next? Oftentimes, we think, "Oh, well. I'm retired, so I can't work anymore." Because the definition of retired is not working. No, I think that the definition of retirement is whatever you want it to be. I've been inspired just by a lot of guests who come on this show who've talked about their 50s being a moment of reflection and taking a pivot to something that is equally, if not more, exciting than the career that they had.

But now, they're doing it on their terms. They don't feel like they have to do it for the paycheck. Even if they are working 40 hours a week, again, they're doing it on their terms, and they feel really good about it. Maybe they're starting a business. Maybe they're volunteering somewhere. Maybe they're starting a not-for-profit. They're teaching. But, again, they're not feeling tethered to a day job, a desk job, a paying job. So if your retirement is you being able to call the shots more often in your professional and financial life, then let that be what defines this moment for you. To answer your question, it does seem doable. How you've mapped it out, financially, it seems doable. You both sound like you're very nimble and flexible here and that you are willing to move to a lower cost of living area. Your wife is continuing to work.

One other thing I would say, Bob, is to look into long-term health insurance, long-term care insurance. We've talked about it on this show before. It is, if you can afford it, I think a valuable tool to have in your retirement arsenal, your financial arsenal, as you age. We know that medical insurance in this country is subpar. I'll just say it. If you do need to get assisted living or nursing home or someone to come to your home and help you out for one of the qualifiers for long-term care insurance, then you might want to get it.

I mean, stats show, actuarial stats show that this actually comes in very handy for people as they age. Medical costs are a big wildcard in retirement. As we age, so to have this type of insurance, especially getting it now in your 50s, would be more affordable than if you were to get it in your 60s. So I encourage you to look into this at least if you haven't already as maybe a way to supplement your financial security in retirement. But I love this plan. I love that you're in the audience too, Bob. I wish you and your wife all the best.

That's our show, everybody. Thanks so much for tuning in. As I said, next week, we have an important episode on how to invest in the market right now. That's on Monday with Amanda Holden, Founder of Invested Development. Until then, I hope your weekend is So Money.

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